

Message Text

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ACTION EUR-12

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AGRE-00 OMB-01 STR-04 IGA-02 /104 W
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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 5092
ALL OECD CAPITALS
INFO USMISSION USUN
USMISSION GENEVA

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USOECD

AIDAC

E.O. 11652: N/A
SUBJECT: 1976 DAC ODA AND TOTAL FLOWS

1. SUMMARY: DAC CHAIRMAN WILLIAMS SPOKE TO PRESS AND ANSWERED QUESTIONS ON JUNE 29 REGARDING DATA ON 1976 DAC MEMBERS ODA AND TOTAL FLOWS TO LDC' S. HE INDICATED THREE IMPORTANT CONCLUSIONS WITH RESPECT TO 1976: (A) RESULTS ARE DISAPPOINTING, PARTICULARLY FOR DAC COUNTRIES' ODA (OFFICIAL DEVELOPMENT ASSISTANCE), BUT PROSPECTS FOR FUTURE ARE GOOD; (B) FLOWS FROM OPEC COUNTRIES, WHICH ROSE RAPIDLY UP TO 1975, DECLINED IN 1976 BUT REMAIN AT HIGH LEVEL; (C) ABILITY OF INTERNATIONAL CAPITAL MARKETS, ESPECIALLY EURO-DOLLAR MARKET, TO RECYCLE OPEC SURPLUSES TO DEVELOPING COUNTRIES MARKS NEW STAGE IN CAPITAL TRANSFERS TO LATTER. END SUMMARY.

2. ODA REMAINED AT SAME LEVEL AS 1975 IN NOMINAL TERMS
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BUT DECLINED IN REAL TERMS. AS PERCENTAGE OF GNP, DECLINE WAS FROM 0.36 PERCENT TO 0.33 PERCENT. THREE COUNTRIES ACHIEVED 0.7 PERCENT IN 1976: SWEDEN AND THE NETHERLANDS FOR THE SECOND TIME; NORWAY FOR THE FIRST TIME. ODA FROM SIX COUNTRIES (AUSTRALIA, BELGIUM, CANADA, GERMANY, JAPAN AND NEW ZEALAND) FELL BOTH IN NOMINAL TERMS AND AS PERCENTAGE OF GNP. FOR OTHER DAC

COUNTRIES, LEVEL OF ODA REMAINED ABOUT SAME AS 1975. REGARDING TOTAL FLOWS, THERE WAS STAGNATION IN DOLLAR TERMS (\$39.5 BILLION IN 1976 COMPARED TO \$39.9 BILLION IN 1975) AND DECLINE AS PROPORTION OF GNP (FROM 1.05 PERCENT TO 0.95 PERCENT). THREE COUNTRIES SHOWED BETTER PERFORMANCE IN TOTAL FLOWS HOWEVER; AUSTRIA, BELGIUM, AND ESPECIALLY JAPAN, WHOSE TOTAL FLOWS ROSE TO \$4 BILLION FROM \$2.9 BILLION IN 1975.

3. TOTAL FLOWS FROM OPEC COUNTRIES DECLINED FROM \$8.1 BILLION IN 1975 TO \$7.5 BILLION IN 1976 (FROM 3.9 PERCENT TO 3 PERCENT OF GNP). TWO-THIRDS OF OPEC FLOWS ARE IN FORM OF CONCESSIONAL AID, AND THIS DECLINED FROM \$5.4 BILLION IN 1975 TO \$5 BILLION IN 1976 (FROM 2.6 PERCENT TO 2 PERCENT OF GNP). TOTAL DIRECT FLOWS FROM OPEC COUNTRIES REPRESENTED ABOUT ONE-SIXTH OF THEIR BALANCE OF PAYMENTS SURPLUS FOR 1976, ESTIMATED AT \$44 BILLION.

4. LOANS FROM PRIVATE SOURCES HAVE BECOME DOMINANT OVER THOSE FROM OFFICIAL SOURCES. AS PROPORTION OF TOTAL FLOWS, FORMER NOW REPRESENT TWO-THIRDS, WHILE OFFICIAL RESOURCE TRANSFERS HAVE DECLINED TO ONE-THIRD. THERE WAS DRAMATIC INCREASE IN EURO CURRENCY LENDING TO DEVELOPING COUNTRIES IN 1976 -- \$22.5 BILLION, AS COMPARED TO \$9.5 BILLION IN 1975. WHILE \$4.8 BILLION OF THIS WENT TO OPEC COUNTRIES, THE INCREASE IS VERY HIGH FOR NON-OIL COUNTRIES.

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PRODUCING DEVELOPING COUNTRIES. IN PAST THREE YEARS, COMMERCIAL BANKS PROVIDED MORE THAN HALF OF NET NEW

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FINANCING FOR NON-OIL PRODUCING DEVELOPING COUNTRIES, AS COMPARED
TO ONLY 20 PERCENT IN YEARS 1971-73.

5. IN REPLY TO QUESTIONS, MR. WILLIAMS ADDED THAT:
A. OPTIMISM CONCERNING FUTURE PROSPECTS FOR DAC
COUNTRIES' ODA IS BASED ON TWO FACTORS: (1) IN 1976,
ODA COMMITMENT LEVELS WERE UP BY 21 PERCENT OVER 1975;
(2) THE FIRM COMMITMENT TAKEN BY THE INDUSTRIALIZED
COUNTRIES AT CIEC--AND REAFFIRMED BY THE OECD COUNCIL OF
MINISTERS--TO SUBSTANTIALLY INCREASE THEIR AID. ALSO THE SPECIAL
ACTION PROGRAM, WHOSE AIM IS TO INCREASE
THE FLOW OF OFFICIAL RESOURCES TO THE POORER COUNTRIES.
(IT IS MIDDLE-INCOME COUNTRIES THAT RECEIVE MOST OF THE
PRIVATE FLOWS.)

B. MOVE TOWARDS BUDGET RESTRICTIONS IN SOME
COUNTRIES WILL NOT NECESSARILY AFFECT THESE COUNTRIES'
ABILITY TO MEET THEIR ODA TARGETS, THOUGH OF COURSE THIS
DEPENDS ON INDIVIDUAL COUNTRIES' PRIORITIES AND OBJECTIVES.
SOMES COUNTRIES HAVE ADOPTED THREE-YEAR PLANS TO
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MEET THEIR OBJECTIVES, AND THEIR AID HAS STEADILY
INCREASED. AS RESULT OF THE COLLECTIVE COMMITMENT TAKEN
AT CIEC, FINLAND, FOR EXAMPLE, APPARENTLY HAS DECIDED
TO DOUBLE ITS AID OVER NEXT FIVE YEARS.

C. CIEC MADE A POSITIVE CONTRIBUTION TO THE
NORTH-SOUTH DIALOGUE. CLARIFICATION OF ISSUES WAS
ACHIEVED AND AGREEMENT WAS REACHED ON NUMBER OF IMPORTANT
QUESTIONS, INCLUDING STRONG COMMITMENT TO INCREASE
OFFICIAL DEVELOPMENT AID. THE DIALOGUE WILL NOW CONTINUE IN THE
U.N. AND IN SPECIALIZED BODIES SUCH AS
UNCTAD AND WORLD BANK. THERE WAS NOT FULL AGREEMENT ON
DEBT PROBLEM. FOR MIDDLE-INCOME DEVELOPING COUNTRIES,
WHO ARE THE PRINCIPAL RECIPIENTS OF COMMERCIAL LOANS,
THEIR INCREASING EXPORTS MEAN THAT THEIR DEBT SERVICING
OBLIGATIONS ARE MANAGEABLE. A FEW MAY ENCOUNTER PROBLEMS,
AND FOR THEM A CASE-BY-CASE EXAMINATION WILL BE
NECESSARY. SITUATION IS MUCH MORE DIFFICULT FOR
POOREST COUNTRIES WHOSE EXPORTS ARE FOR MOST PART SLUGISH.

SOME SEE THEIR PROBLEM AS ONE OF DEBT; IT CAN ALSO BE SEEN AS TRANSFER OF RESOURCES PROBLEM. IN FACT, IT IS A PROBLEM OF ABSOLUTE POVERTY. THEIR NEED IS FOR INCREASED OFFICIAL RESOURCE TRANSFERS. TOTAL DEBT OF DEVELOPING COUNTRIES HAS DOUBLED SINCE 1973 AND REPRESENTS ABOUT 16PERCENT OF GNP OF THIRD WORLD.

D. OPEC COUNTRIES HAVE MADE A MAJOR EFFORT TO DIVERSIFY THEIR AID, ESPECIALLY WITH THEIR NEW FUND WHICH IS INTENDED TO REACH A NUMBER OF NEW RECIPIENTS IN AFRICA AND ASIA. BUT BULK OF OPEC AID IS STILL GOING TO COUNTRIES OF THE MIDDLE EAST REGION. MAJOR OPEC DONORS ARE SAUDI ARABIA, THE UNITED ARAB EMIRATES, KUWAIT AND IRAN.
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E. WITH RESPECT TO ABILITY OF U.S. TO INCREASE ITS AID, THERE IS CERTAINLY A PROBLEM OF BUILDING GREATER SUPPORT IN CONGRESS AND THE PUBLIC. THE U.S. ADMINISTRATION INTENDS TO FACE THIS PROBLEM BY REFORMULATING ITS AID PROPOSALS TO REACH THE PEOPLE WHO NEED AID MOST AND TO HELP THEM MEET THEIR BASIC HUMAN NEEDS, AS SECRETARY VANCE POINTED OUT IN HIS RECENT SPEECH AT OECD MINISTERIAL.
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